STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

MCLEAN MCHENRY MUTUAL INSURANCE COMPANY

TURTLE LAKE, NORTH DAKOTA

AS OF DECEMBER 31, 2004

STATE OF NORTH DAKOTA

DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

McLean McHenry Mutual Insurance Company

Turtle Lake, North Dakota

as of December 31, 2004, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

COMMISSIONER OF INSURANCE
SEAL
STATE OF
NORTH DAKOTA

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 9th day of October, 2005.

Jim Poolman
Commissioner of Insurance

TABLE OF CONTENTS

Turtle Lake, North Dakota
August 12, 2005

Honorable Jim Poolman
Commissioner of Insurance
North Dakota Department of Insurance
600 East Boulevard
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners, an examination was made of the condition and affairs of the

McLean McHenry Mutual Insurance Company
Turtle Lake, North Dakota

as of December 31, 2004.

McLean McHenry Mutual Insurance Company, Turtle Lake, North Dakota, hereinafter referred to as the Company, was last examined as of December 31, 1998, by a representative of the State of North Dakota.

SCOPE OF EXAMINATION

The current examination covers the period January 1, 1999, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This examination was conducted in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners with due regard to the statutory requirements of the insurance laws, rules, and regulations of the State of North Dakota.

Examination procedures included a verification and evaluation of assets, a determination of liabilities, and reviews of corporate records, claim files, and other records relating to Company operating practices.

The Company has adequately addressed all recommendations made in the prior report of statutory examination except for the following:

- That the Company add the “entire contract clause” to the reinsurance agreement with Grinnell Mutual Reinsurance Company; and

- That the Company include an asset for “Premiums Booked but Deferred and Not Yet Due" in future annual statements.

HISTORY

The Company was incorporated under the laws of the State of North Dakota on December 17, 1904, and commenced business January 1, 1905, as the McLean County Farmers Mutual Fire, Lightning, and Cyclone Insurance Company, with its principal place of business at Washburn, North Dakota. During June 1910, its office was moved to Underwood, and in 1937 to Turtle Lake. During 1927, the Company's name was changed to McLean County Farmers Mutual Insurance Company, and the term of its existence was made perpetual.

In 1990, the Company merged with Viking Farmers Mutual Insurance Company, retaining the name McLean County Farmers Mutual Insurance Company.

Effective August 31, 1998, the Company and Farmers Mutual Insurance Company of McHenry County joined operations under an Articles of Consolidation to form a new company named McLean McHenry Mutual Insurance Company.

The Company was organized pursuant to the provisions of N.D. Cent. Code Chapter 26.1-13 to insure against all of the risks and to possess all of the powers and to be subject to all of the liabilities and duties of a county mutual insurance company as now provided in N.D. Cent. Code Chapter 26.1-13, as the same may be from time to time amended in the future.

The Company has perpetual existence as provided under N.D. Cent. Code § 26.1-13-03.

MANAGEMENT AND CONTROL

The Company is controlled by its membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges of membership. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The Bylaws provide that the management of the Company's affairs, business, and property is vested in a Board of Directors composed of nine members elected at the annual meeting of the membership.

Directors are elected for a term of three years or until their successors are elected and duly qualified. The term of office of the directors are divided into three classes so that the term of office of one class expires each year. Any interim vacancy on the board may be filled by the remaining members for the unexpired term or until a successor is elected and qualified.

Directors duly elected and serving the Company at December 31, 2004, were as follows:

Name and Residence	Term Expires	Occupation
Gerald Presser Turtle Lake, ND	2007	Farmer
Richard Britton Turtle Lake, ND	2006	Farmer
Vernon Wunderlich Velva, ND	2007	Farmer
Bruce Klabunde Garrison, ND	2007	Farmer
David Holje Maddock, ND	2006	Farmer
Vernon Edinger Turtle Lake, ND	2005	Farmer
Steve Christensen Mercer, ND	2005	Farmer
Nick Wagner Mercer, ND	2005	Farmer
Harry Bergstad Voltaire, ND	2006	Farmer

Officers

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year. Officers serving at December 31, 2004, were as follows:

Name	Office
Gerald Presser	President
Richard Britton	Vice President
Douglas Hanson	Secretary-Treasurer

CORPORATE RECORDS

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

Members

During the period under examination the annual meetings of the membership were held on the following dates: June 14, 1999; June 12, 2000; June 11, 2001; June 10, 2002; June 09, 2003; and June 14, 2004.

Directors

During the period under examination the Board of Directors held 11 meetings in 1999, 12 meetings in 2000, 12 meetings in 2001, 7 meetings in 2002, 11 meetings in 2003 and 10 meetings in 2004.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2004, there was in force a fidelity bond insuring the Company against loss of money or other property which the Company shall sustain through any fraudulent or dishonest act or acts committed by any employee. The bond provides for a $25,000 limit of liability for loss caused by any employee. The coverage meets the minimum amount of fidelity insurance suggested in the NAIC's *Financial Examiners Handbook*.

Other insurance in force at December 31, 2004, consisted of coverage on the Company's office equipment and building contents.

TERRITORY AND PLAN OF OPERATION

At December 31, 2004, the Company had 54 licensed agents and was authorized to transact business in the following counties:

Benson	Emmons	Mountrail	Sheridan
Bottineau	Kidder	Oliver	Towner
Burke	McLean	Pierce	Ward
Burleigh	McHenry	Ramsey	Wells
Eddy	Mercer	Rolette	Williams

AFFILIATED TRANSACTIONS

The Board of Directors approved rent and utility payments to Secretary/Treasurer Doug Hanson for the Company's office space during the period under examination. At December 31, 2004, a $700 monthly rental rate and $200 monthly utilities fee were being remitted by the Company.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over a seven-year period. Data with respect to the years 1999 through 2003 is as compiled from home office copies of the filed

Annual Statements. Data for the years 1998 and 2004 reflects the results of examination. The operational results are presented on a cash basis.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Underwriting Deductions	Investment and Other Income	Net Income (Loss)
1998	$584,817	$423,926	$160,891	$393,135	$443,922	$49,433	$ (1,353)
1999	619,469	455,189	164,280	474,775	547,209	34,751	(37,683)
2000	549,528	409,085	140,443	441,583	477,206	25,391	(10,232)
2001	695,013	531,547	163,466	515,883	457,074	55,465	114,274
2002	730,434	398,980	331,454	529,133	441,386	27,991	115,738
2003	948,717	377,832	570,885	513,482	318,302	48,780	243,960
2004	1,176,058	460,391	715,667	555,061	497,483	61,055	118,633

Note that the 1998 and 1999 underwriting deductions and other income amounts are exclusive of borrowed funds.

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the six-year period ending December 31, 2004:

	2004	2003	2002	2001	2000	1999
Premiums	100%	100%	100%	100%	100%	100%
Deductions:						
Losses and Loss Adjustment	42.2	17.5	38.2	41.0	54.4	71.7
Underwriting Expenses	47.6	44.5	45.2	47.6	53.7	58.7
Total Deductions	89.8	62.0	83.4	88.6	108.1	130.4
Net Underwriting Gain (Loss)	10.2	38.0	16.6	11.4	(8.1)	(30.4)

INSURANCE PRODUCTS AND RELATED PRACTICES

Treatment of Policyholders

Claims — Based on a limited review of claim files, the Company pays claims fairly within policy provisions upon receipt of satisfactory proof of loss or damage.

Advertising — The Company's advertising consists primarily of give-away items, sponsorships, and radio advertising.

OPERATIONS REVIEW

In July 2000, representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review covering the following areas:

- Claims
- Underwriting
- Loss control

As a result of that review, the Company developed various manuals recommended by Grinnell and implemented other procedures suggested by Grinnell.

Grinnell performed another operations review in October 2003 covering the same operational areas.

REINSURANCE

The reinsurance treaty in force at December 31, 2004, is summarized below:

Nonaffiliated Ceding Contract:

Type: Excess

Reinsurer: Grinnell Mutual Reinsurance Company

Scope: All policy forms and endorsements issued by the Company:

(A) Individual Occurrence of Loss Excess - covers all risks written by the Company in excess of $50,000 retention subject to the following limits:

Dwellings	$500,000
Farm Outbuildings	$750,000
Livestock/Poultry/Horse Operations	$500,000
Commercial and Public Property	$500,000

(B) Aggregate Excess - Provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2004 was $364,768

Premium:

(A) Individual Occurrence of Loss Excess - The 2004 annual and monthly premium rate per $1,000 adjusted gross fire risks in force was $.4457 and $.0371 respectively.

(B) Aggregate Excess - The 2004 annual and monthly premium rate per $1,000 of adjusted gross fire risks in force was $.5325 and $.0444 respectively.

Commissions: None

Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days written notice.

The contract contained the insolvency clause required by N.D. Cent. Code § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual* except for the "entire contract" clause. **It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an "entire contract" clause.**

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2004, was prepared from the cash receipts and cash disbursements journal and traced to the appropriate schedules of the Company's 2004 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

Policy processing, billing, and some accounting functions are processed electronically using the Mutual Automation Package (MAPPLUS) and Oasis general ledger software programs developed by Grinnell InfoSystems, Inc. During the period under examination, the Company manually maintained both a cash receipts and a cash disbursements journals that were used in preparing its annual statements.

The Examiners noted the following differences with respect to the Company's accounts and records:

Expense Classification – Expenditures for employees' health insurance, workers compensation and employees' life insurance were incorrectly classified as Insurance and Bonds expense rather than Employee Relations and Welfare expense. Expenditures for federal and state unemployment taxes were also incorrectly classified as Insurance and Bonds expense rather than Payroll Tax expense.

Supporting Documentation – An unearned premium detail listing was not retained to support the liability for the unearned premium reserve as reported in the 2004 annual statement.

Internal Controls – Two outstanding checks were not included in the Company's bank reconciliation computation as of December 31, 2004. Two checks issued in January 2005 were incorrectly recorded in the manual cash disbursements journal as 2004 expenditures.

It is recommended that the Company classify expenditures in conformity with the *Annual Statement Instruction Manual*, record transactions properly and maintain adequate records and work papers to support the detail of all accounting transactions.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2004, as determined by this examination and its operating results for the year then ended.

McLean McHenry Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2004

Assets

LEDGER ASSETS:			
Bonds	$ 29,197.00		
Stocks	3,000.00		
Cash in Checking Account	98,149.95		
Cash on Deposit	939,238.96		
Furniture and Fixtures	7,078.09		
TOTAL LEDGER ASSETS		$1,076,664.00	
NONLEDGER ASSETS:			
Interest Due and Accrued on Bonds	106.03		
Interest Due and Accrued on Cash on Deposit	11,837.19		
Premiums In Course of Collection	66,072.08		
Market Value of Stocks Over Book Value	6,957.48		
Reinsurance Recovered on Paid Losses	21,499.00		
TOTAL NONLEDGER ASSETS		106,471.78	
DEDUCT: ASSETS NOT ADMITTED			
Furniture and Fixtures	$ 7,078.09		
TOTAL NONADMITTED ASSETS		$7,078.09	
TOTAL NET ADMITTED ASSETS			$1,176,057.69
LIABILITIES			
Unpaid Losses	$ 25,377.00		
Unpaid Loss Adjustment Expense	1,900.00		
Advance Premiums	12,551.81		
Unearned Premium Reserve	352,875.88		
Commissions Due and Payable	10,289.71		
Unpaid Taxes	4,892.59		
Unpaid Salaries	3,500.00		
Unpaid General Expenses	7,600.00		
Reinsurance Premiums Due and Payable	19,186.71		
Federal Income Taxes	1,495.00		
Amounts Withheld or Retained by Company	1,898.81		
Other Liability – Retirement Fund	18,823.22		
TOTAL LIABILITIES		$460,390.73	
SURPLUS TO POLICYHOLDERS		715,666.96	
TOTAL LIABILITIES AND SURPLUS			$1,176,057.69

McLean McHenry Mutual Insurance Company
Operating Results
for Year Ended December 31, 2004

INCOME

Gross Premium Income	$703,085.04		
LESS: Return Premiums	10,692.38		
Premiums for Reinsurance Ceded	137,331.58		
NET PREMIUM INCOME		$555,061.08	
Interest on Bonds		6,536.74	
Interest on Cash on Deposit		30,320.84	
Net Liability Premium		21,565.99	
Miscellaneous		144.44	
Dividends & Reimbursement		588.53	
Increase in Ledger Liabilities (Amounts Withheld)		1,898.81	
TOTAL INCOME RECEIPTS			$ 616,116.43

DISBURSEMENTS

Gross Losses Paid and Incurred in 2004	$230,278.25		
Gross Losses Paid in 2004 but Incurred in Prior Years	10,379.04		
DEDUCT: Salvage	5,103.49		
Reinsurance	1,295.98		
NET LOSSES PAID		$234,257.82	
Claim Adjustment Expenses		17,120.36	
Commissions Paid to Agents		94,181.77	
Directors' Fees and Expenses		4,900.00	
Salaries to Employees		52,685.10	
Printing, Stationery, and Office Supplies		3,940.12	
Rent and Rent Items		8,410.00	
Real Estate Expenses		2,400.00	
Taxes on Real Estate		0.00	
State and Local Insurance Taxes		12,414.00	
Insurance Department Licenses and Fees		590.00	
Payroll Taxes		4,221.50	
Federal Income Taxes		8,578.00	
Legal Fees and Auditing		1,070.00	
Travel and Travel Items		5,016.72	
Advertising		5,717.51	
Dues and Donations		3,750.61	
Equipment		2,317.90	
Insurance and Bonds		17,175.68	
Postage, Telephone, and Bank Charges		5,686.28	
Employee Relations and Welfare		914.27	
Data Processing Expenses		4,163.50	
Miscellaneous		6,403.86	
Loss on Disposal of Ledger Assets		1,568.41	
TOTAL FUNDS DISBURSED			497,483.41
NET GAIN			$118,633.02

COMMENTS TO THE FINANCIAL STATEMENTS

Bonds

The Company held one zero coupon bond at December 31, 2004, with an admitted value determined by this examination in the amount of $29,197.00 or $4,117.00 more than the amount reported by the Company in its 2004 Annual Statement. The $4,117.00 difference represents the accrual of discount through December 31, 2004, which increases the book value of the zero coupon bond. A zero coupon bond is subject to accrual of discount using the scientific method; the bond's discount is computed as the difference between its maturity value (i.e., par value) and its original cost. The yearly increase in value should be reported as interest income with a corresponding entry to Increase by Adjustment in Book Value.

The following reporting differences were noted with regard to the Company's reporting of bonds during the period under examination:

Page 2 - Interest on Bonds – The Company did not include the accrual of discount on the zero coupon bond and as a result understated 2004 income by $1,635.59.

Page 3 - Accrued Interest on Bonds – The Company did not properly compute accrued interest on bonds and as a result overstated non-ledger assets at December 31, 2004, by $5,277.21.

Page 4 - Par Value of Bonds – The Company did not report the par value of the zero coupon bond in the amount of $38,000 in column 4 of Section VII, Part 1.

Page 4 - NAIC Designation Column – The Company did not report the SVO designation for bonds owned in the NAIC designation column (Column 13).

Page 5b - Bonds Sold – Various differences were noted in the 2002, 2003 and 2004 Annual Statements resulting from improperly adjusting the book value of bonds, incorrectly computing a gain/loss on sale and using an inconsistent cost basis.

It is recommended that the Company record annual adjustments to the book value of bonds for the accrual of bond discount and the amortization of bond premium as required by the *Annual Statement Instruction Manual.*

It is recommended that the amount of Interest on Bonds reported on page 2 of the Annual Statement include the accrual of bond discount and deduction of amortization of bond premium.

It is recommended that bond transactions, including par value and NAIC designation column, be reported in subsequent annual statements in conformity with the *Annual Statement Instruction Manual.*

Stocks

Stock owned by the Company at December 31, 2004, consisted of 60 shares of NAMIC Class B common stock. The common stock had a book value of $3,000 and a market value and admitted value of $9,957.48 at December 31, 2004.

The admitted value of the NAMIC stock was determined using a unit price established by the NAIC's Securities Valuation Office.

Cash in Checking Accounts

The Company's operating account had a balance of $98,149.95 at December 31, 2004, or $2,623.00 more than the amount reported in the Company's 2004 Annual Statement. The difference is due to two checks issued in January 2005 but recorded as 2004 expenditures and incorrectly treated as outstanding checks in the Company's bank reconciliation. The year-end bank balance in the operating account was verified by confirmation received from the depository.

Cash on Deposit

Cash on deposit consisted of 20 interest-bearing accounts in 12 banks. The aggregate balance of certificate of deposits and savings accounts at December 31, 2004, was $939,238.96 or $23,194.33 more than the amount reported by the Company in its 2004 Annual Statement. The year-end account balances were verified by confirmations received from the depositories.

The following reporting differences were noted with regard to the Company's reporting of cash on deposit in Schedule N, page 9, of the 2004 Annual Statement:

1. Account Balances – The Company did not include interest earned and accumulated in the account balances of six certificates of deposit and as a result understated the amounts reported in Column 2 by $23,194.33.

2. Amount of Interest Received – The Company did not properly compute interest earned/received on cash accounts and as a result understated interest reported in Column 4 by $12,691.24.

3. Amount of Interest Accrued – The Company did not properly compute interest accrued at December 31, 2004, and as a result overstated interest reported in Column 5 by $19,570.65.

4. Rate of Interest – Some stated interest rates were reported incorrectly in Column 3.

In addition, the Company incorrectly classified the balance of a passbook savings account held at the Bank of Turtle Lake as a non-admitted asset. The savings account balance at December 31, 2004, totaled $18,823.22. The funds deposited in this passbook savings account have been designated by the Board to serve as a retirement benefit for Manager Doug Hanson. This examination established a liability for the retirement funds set aside in the passbook savings account; see the Other Liability – Retirement Funds caption below.

Premiums in Course of Collection

Although many of the Company's accounting records are manually maintained, the annual statement balances in the premium cycle, e.g., premiums in course of collection, unearned premiums and advance premiums, were taken from system generated reports.

Premiums in course of collection as reported by the Company and as determined by this examination consisted of the following items and amounts:

Description	Company	Examination
Uncollected Premiums	$4,316.70	$9,858.07
Premiums Booked but Deferred and Not Yet Due	0	56,214.01
Total	$4,316.70	$66,072.08

The Company understated Uncollected Premiums by $5,541.37 and did not include "Premiums Booked but Deferred and Not Yet Due" in its 2004 Annual Statement. The net result of these errors understate nonledger and admitted assets by $61,755.38.

It is again recommended that the Company include an asset for "Premiums Booked but Deferred and Not Yet Due" in future annual statements.

Past Corrections

This examination eliminated the amount of ($140.62) reported by the Company as a write-in for past corrections that incorrectly reduced the aggregate balance of ledger assets.

Reinsurance Recoverable on Paid Losses

This examination determined the amount of Reinsurance Recoverable on Paid Losses to be in the amount of $21,499 at December 31, 2004, or $2,750 less than that reported by the Company. The difference is due to the Company's error in misclassifying an unpaid claim as a paid claim when identifying amounts subject to reimbursement under the reinsurance agreement. The reclassification of the unpaid claim results in a corresponding adjustment to Unpaid Losses.

Unpaid Losses

The Company's liability for Unpaid Losses at year end was determined by this examination to be in the amount of $25,377 or $2,750 less than that estimated by the Company. The difference is due to the Company's failure to deduct reinsurance recoverable on an unpaid claim in the amount of $2,750 in computing unpaid losses. The Examiners determined the liability for unpaid losses using subsequent payments through June 1, 2005, the Company's reserve for 2004 and prior incurred claims still open on June 1, 2005, and a $2,000 reserve established by this examination for incurred but not reported claims.

Unpaid Loss Adjustment Expenses

The Company's liability for Unpaid Loss Adjustment Expenses was determined by this examination to be in the amount of $1,900 or $900 less than that reported by the Company.

Advance Premiums

This examination established a liability for advance premiums in the amount of $12,551.81 rather than the zero amount reported by the Company. **It is recommended that the Company report Advance Premiums as a write-in liability on page 3, line 32, of the Annual Statement.**

Unpaid Taxes

The liability for Unpaid Taxes was determined by this examination to be $4,892.59 or $1,007.59 more than that reported by the Company. The following schedule reflects the Company's liability, the liability determined by this examination and the resulting differences:

Description	Company	Examination	Difference
Federal payroll taxes	$ 0	$ 724.19	$(724.19)
Federal unemployment taxes	0	194.60	(194.60)
State unemployment taxes	0	88.80	(88.80)
Premium taxes	3,885.00	3,885.00	0
Totals	$3,885.00	$4,892.59	$1,007.59

The liability for unpaid taxes was determined by this examination from a review of subsequent payments and from a recomputation of the Company's premium tax returns for the period under examination.

This examination also determined that the payroll tax expense reported on page 2, line 30 of the 2004 Annual Statement was overstated in the amount of $724.19 due to the improper recording of two checks issued in January 2005 as 2004 expenditures.

Federal Income Taxes Payable

This examination established a liability for Federal Income Taxes payable in the amount of $1,495 using the 2004 Federal Income Tax return filed by the Company in March 2005. The Company included no provision for federal income taxes payable in its 2004 Annual Statement.

Other Liability – Retirement Funds

This examination established a liability for retirement funds set aside in a passbook savings account in the amount of $18,823.22. Based on action by the Board of Directors, the funds deposited in the passbook savings account have been designated as a retirement benefit for Manager Doug Hanson. The fund balance represents a liability of the Company consistent with the definition of a liability under SSAP No 5 of the *NAIC's Accounting Practices and Procedures Manual.*

Amounts Withheld or Retained by Company for Account of Others

The liability for Amounts Withheld was determined to be $1,898.81 and represents federal and state withholdings from employees' salaries for the month of December.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be in the amount of $715,666.96 or $50,929.26 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) to Surplus
Ledger Assets:			
Bonds	$ 25,080.00	$ 29,197.00	$ 4,117.00
Cash in checking accounts	95,526.95	98,149.95	2,623.00
Cash on deposit	916,044.63	939,238.96	23,194.33
Past corrections	(140.62)	0	140.62
Non-Ledger Assets:			
Interest due and accrued on bonds	5,383.24	106.03	(5,277.21)
Interest due and accrued on certificates of deposits and savings	31,407.84	11,837.19	(19,570.65)
Premiums in course of collection	4,316.70	66,072.08	61,755.38
Reinsurance recoverable on paid losses	24,249.00	21,499.00	(2,750.00)
Non-Admitted Assets:			
Savings account	18,823.22	0	18,823.22
Liabilities:			
Unpaid losses	28,127.00	25,377.00	2,750.00
Unpaid loss adjustment expenses	2,800.00	1,900.00	900.00
Advance premiums	0	12,551.81	(12,551.81)
Unpaid taxes	3,885.00	4,892.59	(1,007.59)
Federal income taxes	0	1,495.00	(1,495.00)
Amounts withheld	0	1,898.81	(1,898.81)
Other liability – retirement fund	0	18,823.22	(18,823.22)
Net Increase			$50,929.26

CONCLUSION

The financial condition of McLean McHenry Mutual Insurance Company, Turtle Lake, North Dakota, as determined by this examination as of December 31, 2004, is summarized as follows:

Total Admitted Assets		$1,176,057.69
Total Liabilities	$460,390.73	
Surplus to Policyholders	715,666.96	
Total Liabilities and Surplus		$1,176,057.69

During the six-year period under review, the Company's surplus to policyholders increased by $554,776, admitted assets increased by $591,241, and liabilities increased by $36,465.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Examiner Chad Myhre participated in this examination.

Respectfully submitted,

Carole Kessel

Carole Kessel, CPA
Chief Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an "entire contract" clause.

It is recommended that the Company classify expenditures in conformity with the *Annual Statement Instruction Manual*, record transactions properly and maintain adequate records and work papers to support the detail of all accounting transactions.

It is recommended that the Company record annual adjustments to the book value of bonds for the accrual of bond discount and the amortization of bond premium as required by the *Annual Statement Instruction Manual.*

It is recommended that the amount of Interest on Bonds reported on page 2 of the Annual Statement include the accrual of bond discount and deduction of amortization of bond premium.

It is recommended that bond transactions, including par value and NAIC designation column, be reported in subsequent annual statements in conformity with the *Annual Statement Instruction Manual.*

It is again recommended that the Company include an asset for "Premiums Booked but Deferred and Not Yet Due" in future annual statements.

It is recommended that the Company report Advance Premiums as a write-in item on page 3, line 32, of the Annual Statement.